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Briefing Report to the Chairman, Committee on Small Business, U.S. Senate

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July 1989

SMALL BUSINESS

Information on Cosponsorship Program Activities

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

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July 5, 1989

The Honorable Dale Bumpers
Chairman, Committee on Small Business
United States Senate

Dear Mr. Chairman:

In your October 14, 1988 letter, you requested that we review the Small Business Administration's (SBA) financing and oversight of its private sector cooperative (cosponsorship) program, which has been conducted under Section 8(b) of the Small Business Act, as amended (15 U.S.C. 637). The purpose of this program is to obtain private sector cooperation and resources in providing training and counseling to small businesses.

You expressed concern that SBA was not complying with program requirements that were legislatively mandated to ensure that cooperative ventures are not used for improper commercial or political endorsement and that no one is enriched with SBA assistance. For events cosponsored with for-profit entities, the legislation requires, among other things, that an agreement be developed specifying the terms and conditions of the cooperation, that any fees charged to small businesses for training may not exceed direct costs, and that printed, event-related materials give appropriate recognition to SBA and include a disclaimer stating that the cooperation does not constitute or imply SBA's endorsement of the products or services of the cosponsor.

In a subsequent meeting with your office, on December 19, 1988, we agreed to concentrate our initial efforts on an analysis of SBA's headquarters and region IX cosponsorship program activities for the period April 1 through September 30, 1988. Region IX covers Arizona, California, Hawaii, Nevada, Guam, and American Samoa.

On January 26, 1989, we briefed your office on the preliminary results of our analysis. In this briefing, we also discussed (1) an ongoing internal SBA review of the cosponsorship program activities of its field offices and (2) actions being taken by SBA to correct problems with its cosponsorship program. As a result of this briefing, your office agreed that we did not need to perform additional

audit work but requested that we provide you with a report summarizing both the results of our work and that of the internal SBA review. This briefing report contains the requested information.

In summary, our analysis of SBA Region IX data for the 6-month period April 1 through September 30, 1988, and SBA's internal review of data from all of its regions for the same time period showed that SBA field offices had not complied with one or more of the Small Business Act's or SBA's requirements for many of the 222 events cosponsored nationwide with profit-making concerns. Specifically:

-- Agreements between SBA and the cosponsor mandated by the act either were not prepared or were not signed for 96 of the 222 events.

-- Fees paid by small businesses for attending cosponsored events were not accounted for, as required by SBA, in at least 109 cases (regions did not submit fee accounting data to headquarters for 65 of the 222 events).

-- Brochures on the events did not give proper recognition to SBA, as required by the act, for at least 42 of the events and/or did not include the required disclaimer regarding the endorsement of the cosponsor's opinions, products, or services, as required by the act, for at least 89 of the events (regions did not submit brochures to SBA headquarters for 97 of the 222 events).

In addition, in accordance with SBA procedures in effect at that time, agreements were not prepared or signed for events SBA cosponsored with nonprofit entities, including elected officials, that also involved major participation by profit-making concerns. Since October 1988, however, SBA has (1) issued new procedures that require written, signed agreements for all cosponsorships, (2) discontinued cosponsorships with state and local public officials--except for state governors and lieutenant governors, and (3) provided training to its field office personnel that included instruction on how to implement the new cosponsorship procedures.

This briefing report is divided into four sections. Section 1 defines what a cosponsorship activity is and provides background information on the cosponsorship program's legislative authority and restrictions. Section 2 provides the results of our analysis of cosponsored events that took place in SBA Region IX during the 6-month period

April through September 1988. Section 3 provides the results of SBA's internal review of cosponsored events that took place in all 10 SBA regions during the same 6-month period. Section 4 describes the actions SBA has taken to correct problems in the cosponsorship program. Appendixes I through III contain more detailed information on the results of our analysis of cosponsorship events.

To obtain information for this briefing report, we interviewed and obtained cosponsorship program documents from SBA officials in Washington, D.C., and reviewed and analyzed documents SBA Region IX sent to SBA headquarters. We also obtained and reviewed reports on problems noted during SBA's fiscal year 1988 internal control reviews conducted pursuant to the Federal Managers' Financial Integrity Act of 1982. Officials from SBA's Office of General Counsel, Office of Business Development, and Office of Private Sector Initiatives reviewed a draft of this report, and their comments are incorporated where appropriate. We conducted our review between November 1988 and March 1989 in accordance with generally accepted government auditing standards.

We are sending copies of this briefing report to the Administrator, Small Business Administration; the Director, Office of Management and Budget; and other interested parties. Copies also will be made available to others upon request.

Major contributors to this briefing report are listed in appendix IV. If you have any questions concerning matters discussed, please contact me at (202) 275-5525.

Sincerely yours,

John M. Ols, Jr.

John M. Ols, Jr.
Director, Housing and
Community Development Issues

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ABBREVIATIONS

GAO	General Accounting Office
MOU	memorandum of understanding
SOP	standard operating procedure
SBA	Small Business Administration

SECTION 1

BACKGROUND

Section 8(b) of the Small Business Act authorizes the Small Business Administration (SBA) to cosponsor a wide variety of activities with nonprofit entities. A cosponsorship activity is defined by SBA as any cooperative arrangement whereby (1) SBA and one or more non-SBA entity agree to provide training, which includes publications, or counseling to small business concerns and (2) SBA's name or logo is to be used on any printed, or in any recorded, materials or SBA is to contribute to the arrangement either by using its mail privileges or by providing something else of value like personnel or space.

The act originally applied only to cooperative efforts with nonprofit entities, educational institutions, and federal and state agencies, and no legislative requirements or restrictions were placed on these cosponsorships. However, when the act was amended by Public Law 98-362 in July 1984 to permit cosponsorships with for-profit entities, certain requirements were placed on for-profit cosponsorships. These requirements included, among other things, that

-- an agreement must be developed with each for-profit cosponsor that specifies the standard terms and conditions of the cooperation,

-- any fees charged to small businesses may not exceed a minimal amount needed to cover the direct costs of providing training, and

-- all printed materials, that contain the name of both SBA and the cosponsor, are to include a prominent disclaimer that the cooperation does not constitute or imply an endorsement by SBA of the products or services of the cosponsor.

Public Law 100-590, approved November 3, 1988, further requires that SBA receive appropriate recognition and publicity for all cosponsored activities.

SECTION 2

RESULTS OF OUR REVIEW OF COSPONSORED EVENTS IN SBA REGION IX

SBA Region IX--which covers Arizona, California, Hawaii, Nevada, Guam, and American Samoa--submitted data to SBA headquarters on 161 cosponsored events that were arranged by that region during the 6-month period April through September 1988. This included 140 events cosponsored with nonprofit entities and 21 events cosponsored with for-profit concerns.

Two of the 161 events were cosponsored with public officials. SBA considered public officials and agencies to be nonprofit entities, therefore, no written agreements were required. Both events were conferences on women and were cosponsored with California state senators. One event involved SBA expenditures of $49,300 for printing and mailing event-related materials. The second involved an expenditure of $11,098 to mail 100,000 pieces of event-related materials.

The brochures mailed out for the two events mentioned a for-profit concern along with SBA and the particular state senator on the front of the brochure. However, one brochure had no disclaimer stating that SBA's participation as a cosponsor did not constitute an expressed or implied endorsement of the cosponsor's or participants' opinions, products, or services, and the disclaimer on the other brochure was not prominently displayed.

In January 1989, SBA asked the cosponsors of the two events to reimburse SBA for the funds it had expended, claiming the cosponsors had breached oral agreements on the amount the coordinator of the events would be paid. The cosponsor of one event gave SBA a check for $11,098 the same day it was requested. However, no reply had been received from the other event's cosponsor as of May 9, 1989.

Our review of the cosponsored events information submitted by region IX also disclosed the following.

-- SBA's contribution to cosponsored events involved the expenditure of SBA funds to mail (postage) event-related materials for 59 events and to print event-related materials for 22 events. (Note: SBA's role in an event may include providing more than one type of contribution, e.g., postage and printing or speakers.) Of the region's 161 cosponsored events, 23 had reported expenditures of over $1,000, with the largest reported expenditure being $49,300. (See app. I for a listing of these 23 events.)

-- SBA's contribution to 53 cosponsored events involved providing publications on SBA programs, speakers, and/or assistance in planning the event. The SBA publications are to be made available to persons attending the event.

-- For 20 events, region IX either reported that there was no SBA contribution or it did not report information on SBA contributions. Officials at SBA headquarters said that in cases where the region reported no SBA contribution, SBA's contribution was limited to the use of its name as a cosponsor.

-- In 10 instances, the principal cosponsor of an event was shown as a nonprofit entity, and thus no written agreement was required, but one or more profit-making concerns participated in each of these events. (See sec. 3 for further discussion of this matter.)

SECTION 3

RESULTS OF SBA's REVIEW OF EVENTS COSPONSORED IN ALL REGIONS

On October 14, 1988, SBA's Administrator issued a memorandum to all regional administrators and district directors stating that the Congress had criticized the agency for not complying with existing statutory requirements for cosponsorships and that the Administrator's own inquiry indicated serious problems with the program that needed to be addressed immediately. The field offices were instructed to submit information on all cosponsored events that had been held after April 1, 1988.

The 10 SBA regions submitted data to SBA headquarters on 5,592 events cosponsored with private sector entities from April 1 through September 30, 1988. Of the total, 1,132 events (including the 161 cosponsored events in region IX that we reviewed) were arranged by SBA. The remainder were held by Small Business Development Centers (3,342) and the Service Corps of Retired Executives (1,118), and SBA excluded these events from its review. (See app. II for detailed data by SBA region.)

SBA headquarters officials reviewing this data determined that 222, or 20 percent, of the 1,132 events arranged by SBA were cosponsored with profit-making concerns. (See app. III for a detailed analysis of the events SBA cosponsored with profit-making concerns.) On the basis of data the regions submitted for these events, SBA headquarters officials concluded that in many instances existing legislative or agency requirements had not been complied with. For example, the officials determined that no signed agreements existed for 96 events and no reports accounting for the fees collected existed for 109 events. In addition, SBA was accorded less than equal status on the layout of 42 of the 125 brochures the regions submitted, and 89 of the 125 brochures did not have a disclaimer stating that SBA's cooperation did not constitute or imply an endorsement by SBA of the products or services of the cosponsor.

SBA headquarters staff determined that public officials participated significantly in 16 of the 222 events SBA cosponsored with for-profit concerns, that is, the participation involved something more than giving a speech. Nine events involved U.S. senators and representatives, two involved state governors, and five involved state/local elected officials.

As of March 9, 1989, SBA had not analyzed the information received from its regions on the 910 events SBA had cosponsored with nonprofit entities.

A document prepared by SBA headquarters staff in March 1989 stated that for several years SBA had cosponsored training activities through nonprofit entities wherein for-profit entities were involved. For example, SBA would engage a chamber of commerce as a cosponsor for a training event and the chamber would approach a for-profit company, many times one of its members, to underwrite the event. SBA did not impose restrictions applicable to cosponsorships with profit-making concerns to events using this type of an arrangement until January 1989, when it issued procedures that will increase SBA controls over for-profits in such circumstances. As discussed in section 4, the new procedures require a written agreement for all cosponsored events, and for-profit concerns that participate are bound to the terms of the agreement, to the extent applicable, even when they are not considered a cosponsor.

SECTION 4

AGENCY ACTIONS TO CORRECT PROGRAM PROBLEMS

The SBA Administrator's October 14, 1988, memorandum stated that, until the Administrator had the opportunity to review the cosponsored event material being requested from SBA field offices, a moratorium was being instituted on all future field office cosponsorships with private sector, for-profit entities and with elected public officials. This moratorium remained in effect until January 25, 1989, when the Administrator signed an agency standard operating procedure (SOP) setting forth SBA policy, procedures, and guidelines for cosponsorship activities. The SOP included the following new restrictions/requirements.

-- Authority to execute a cosponsorship agreement with a for-profit entity, and authority to approve any printed or recorded materials to be distributed in connection with an event cosponsored with a for-profit entity, is now restricted to the following SBA headquarters officials--the Administrator, the Associate Deputy Administrator for Special Programs, and the Associate Administrator for Business Development. (On May 2, 1989, SBA officials told us that the SOP will be amended to add the Director, Office of Private Sector Initiatives.) Prior to the SOP, agreements with for-profit entities could be approved at the district office level.

-- A written memorandum of understanding (MOU) is now required for events cosponsored with nonprofit entities, including public officials and agencies. Further, participating cosponsors (i.e., those other than the principal cosponsor) are to be provided a copy of the MOU and a written statement that SBA and the principal cosponsor(s) will consider any entity participating in the event to be bound by the terms of the MOU to the extent applicable. Previously, no MOUs were required for events cosponsored with nonprofit entities even if there were significant participation in the event by a for-profit entity.

-- Cosponsorships with state and local public officials are prohibited except for state governors and lieutenant governors.

-- Detailed instructions are now provided on how the name and the logo of SBA and the cosponsor are to appear on cosponsorship materials. In commenting on our draft report, SBA officials told us that SBA plans to seek a technical amendment to a provision contained in the Small

Business Administration Reauthorization and Amendment Act of 1988 (Public Law 100-590, Sec. 131(b)(2)) which requires that SBA be given primary recognition in all cosponsored printed materials. According to these officials, other legislation requires the Department of Commerce to take the lead on events involving export matters and also it is not appropriate that SBA require primary recognition when its contribution is minimal, for example, providing only printed materials.

SBA's Office of Business Development also recently held five training classes for its field office personnel. The training classes provided about 7 hours of instruction on cosponsorships, including an explanation of the January 1989 SOP. Two of the training classes were held in March 1989 and three in April 1989, with personnel from a different two SBA regions attending each of the classes.

APPENDIX I

TWENTY THREE COSPONSORED EVENTS IN REGION IX
INVOLVING SBA EXPENDITURES OF $1,000 OR MORE
(APRIL 1 THROUGH SEPTEMBER 30, 1988)

Event	Principal cosponsor	SBA contribution (dollars)	Comments
Conference on Women	State Senator	$23,300 postage 26,000 printing 0 speaker	No written agreement. Profit-making concern was a major "participating cosponsor."
Teletrade '88	International Business Association	11,100 postage	No written agreement. Profit-making concern participated.
Central California Conference on Women	State Senator	11,098 postage 0 speaker	No written agreement. Profit-making concern was a major "participating cosponsor."
Business to Business Conference and Expo	Los Angeles Area Chamber of Commerce	9,250 postage	No written agreement. Profit-making concerns participated.
Women's Conference on Access to Information	The Enterprising Woman, Inc.	6,600 postage 0 publications 0 speaker	No written agreement. No accounting for fees. Profit-making concern participated.
The Business Classroom Conference	Bay Area Business Expo	6,440 postage	Agreement "not available." Principal cosponsor left the area. Profit-making concern participated.
Export Pacific '88	Meridian Pacific Group	6,250 postage 0 staff time	A written/signed agreement.

Event	Principal cosponsor	SBA contribution (dollars)	Comments
Professional Development	Community Entrepreneurs	$6,250 postage	No written agreement. Principal cosponsor is a nonprofit entity.
How to Supervise Retail Employees	Venture Perspectives	6,250 postage	No written agreement. Principal cosponsor is a nonprofit entity.
Women's Employment Options Conference	Career Planning Center	5,845 postage 0 speaker	No written agreement. Principal cosponsor is a nonprofit entity.
Meet Bay Area Lenders-for Women in Business	San Francisco Chamber of Commerce	4,250 postage printing 0 exhibit	No written agreement. Cost of printing not reported.
Small Business of the Year Awards	Hawaii Chamber of Commerce	4,167 postage 0 staff time	No written agreement.
Connections '88	National Association of Female Executives, Inc.	3,250 postage	A written/signed agreement. Many profit-making concerns participated.
Women in Business: Entrepreneurial Conference	Women in Business Committee	1,500 postage 650 printing	No written agreement. Profit-making concerns participated.
Advertising & Promotion: How to Make It Pay	Greater San Diego Chamber of Commerce	2,004 postage	A written/signed agreement.
Planning: The Key to a Successful Business	Greater San Diego Chamber of Commerce	1,980 postage	A written/signed agreement.
Federal Procurement Conference	Hawaii Chamber of Commerce	1,850 postage 0 speaker	A written/signed agreement.

APPENDIX I

Event	Principal cosponsor	SBA contribution (dollars)	Comments
Opportunities for Women in International Trade	Export Managers Association	$1,850 postage	No written agreement.
Contract Payment	Associated Builders and Contractors	1,750 postage	No written agreement. Principal cosponsor is a nonprofit entity.
The Business Clinic (three clinics)	Business Clinic	1,670 postage	A written/signed agreement.
Small Business Week-Working for America	Santa Ana Economic Development Corporation	1,500 postage	No written agreement.
Business Workshops (six workshops)	Kapiolani Community College	1,073 postage	A written/signed agreement.
Annual Update on U.S. Export Regulations Seminar	Valley International Trade Association	1,000 postage	No written agreement. Principal cosponsor is a nonprofit entity.

Source: GAO analysis of cosponsored events data submitted by SBA Region IX.

APPENDIX II

SUMMARY OF COSPONSORSHIP INFORMATION REPORTED BY ALL SBA REGIONS
APRIL 1 THROUGH SEPTEMBER 30, 1988

	Regions										Agency
	I	II	III	IV	V	VI	VII	VIII	IX	X	totals
Total events reported for region	319	232	557	1,451	880	574	452	322	376	429	5,592
Number of events held by Small Business Development Centers	160	135	218	1,098	524	406	296	159	2	344	3,342
Number of events held by the Service Corps of Retired Executives	53	66	122	177	182	74	69	80	213	82	1,118
Number of events arranged by SBA	106	31	217	176	174	94	87	83	161	3	1,132
Number of SBA events cosponsored with nonprofits	96	20	157	148	164	41	86	55	140	3	910
Number of SBA events cosponsored with for-profits	10	11	60	28	10	53	1	28	21	0	222
Number of SBA/for-profit events with political/ government involvement:											
U.S. representative/ senator	0	3	2	1	1	0	0	2	0	0	9
Governor	0	1	0	0	0	0	0	0	1	0	2
State/local elected official	0	0	0	0	0	3	0	0	2	0	5
State/local agency	2	3	0	15	2	6	0	1	10	0	39
Federal agency	7	1	1	0	1	1	0	1	0	0	12

Source: SBA Office of Business Development.

APPENDIX III

INFORMATION ON FOR-PROFIT COSPONSORSHIPS BY SBA REGION APRIL 1 THROUGH SEPTEMBER 30, 1988

	Regions										Agency totals
	I	II	III	IV	V	VI	VII	VIII	IX	X	
Total number of events covered by the for-profit law	10	11	60	28	10	53	1	28	21	0	222
Types of events:											
Training conferences	10	9	1	6	2	30	1	6	16	-	81
Training workshops	0	2	57	16	6	19	-	20	5	-	125
Other	-	-	2	6	2	4	-	2	-	-	16
Signed agreements:											
Have signed agreements	7	5	46	4	1	30	-	16	14	-	123
Do not have	3	6	12	24	8	23	1	12	7	-	96
Could not tell	-	-	2	-	1	-	-	-	-	-	3
Accounting reports:											
Have accounting reports	2	2	4	4	3	16	-	9	8	-	48
Do not have	7	9	11	24	6	34	1	10	7	-	109
Could not tell	1	-	45	-	1	3	-	9	6	-	65
SBA role in event:											
Postage/franking	2	7	17	4	1	13	-	3	11	-	58
Printing	-	6	-	5	2	4	-	-	1	-	18
Speakers	8	3	46	2	4	22	-	11	10	-	106
Other support	-	-	-	1	1	-	-	-	2	-	4
Could not tell	1	2	3	3	3	20	1	15	-	-	48

APPENDIX III

	Regions										Agency totals
	I	II	III	IV	V	VI	VII	VIII	IX	X	
Brochure layout:											
SBA accorded equal or priority status	8	8	8	3	1	37	-	10	8	-	83
SBA accorded less than equal status	2	2	-	3	6	7	-	10	12	-	42
Disclaimer used:											
Yes	6	4	1	1	1	11	-	4	8	-	36
No	4	6	7	5	6	33	-	16	12	-	89
Brochures not available	-	1	52	22	3	9	1	8	1	-	97

Note: SBA has more than one role in most events.
Source: SBA Office of Business Development.

MAJOR CONTRIBUTORS TO THIS BRIEFING REPORT

Resources, Community, and Economic Development Division, Washington, D.C.

James Yeager, Assistant Director
Leigh E. Cowing, Assignment Manager

(077072)

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